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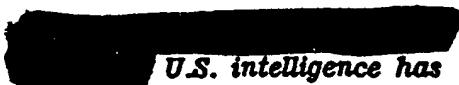
# STUDIES IN INTELLIGENCE



A collection of articles on the historical, operational, doctrinal, and theoretical aspects of intelligence.

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 U.S. intelligence has organized to support the economic cold war and about some of the methodological problems it has encountered.

## THE ASSESSMENT OF COMMUNIST ECONOMIC PENETRATION

Edward L. Allen

What the Soviets call "peaceful competition" with the West, particularly Sino-Soviet Bloc trade and development aid to underdeveloped countries, has presented a new challenge to the West and, from our own professional viewpoint, imposed new tasks upon economic intelligence. The increases in Bloc trade have been spectacular. Since 1954, Soviet trade with underdeveloped countries is up 500 per cent; total Soviet trade with the West is up 100 per cent. Further, the Bloc last year got 36 per cent of Egypt's trade, 33 per cent of Iceland's, 40 per cent of Afghanistan's, and nearly 25 per cent of Yugoslavia's. It succeeded in getting a substantial share of the trade of Syria, Burma, Iran, Turkey and Ceylon.

### *U.S. Organization for Cold War Economic Intelligence*

It became clear to us three years ago that the USSR and other members of the Bloc had embarked upon a long-run program of economic penetration. At that time, we revamped our internal organization to provide the essential intelligence support to government policy-makers. As the Bloc program grew and the magnitude of the threat became clearer, we extended our list of consumers far beyond the executive branch of the government. It was important to keep not only Congress informed, but also influential business groups and the public in general. The Soviet economic challenge, in the words of our Director, Mr. Allen Dulles, had become the most serious challenge our country has faced in peacetime.

The pattern of coordinated reporting is now well established. Since February 1956, a working group under the Economic Intelligence Committee has turned out a detailed report every

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two weeks. This working group is composed of representatives of the Department of State, CIA, the International Cooperation Administration, the military services, and the Departments of the Treasury, Commerce and Agriculture. Additionally, there is an analytical summary every six months, and a special quarterly report to the President's Council on Foreign Economic Policy. The full organizational structure supporting this intelligence effort is illustrated in the chart on page 22.

This organizational arrangement provides a mechanism for combining the political, military and economic facets of Soviet penetration activities. Although there is no rigid division of labor between agencies, there are obvious areas of primacy of interest. The Department of State, for example, bears the primary responsibility for political analysis, while the Department of Defense prepares all estimates on illicit trading in Bloc arms.

On a broader basis, an annual National Intelligence Estimate is produced which covers not only the magnitude, impact and intensity of Bloc penetration activities, but also relates these activities to the capabilities, motivations and internal policies of the Soviets.

### *Characteristics of Bloc Aid Programs*

We have found a number of common characteristics in the Bloc aid programs for underdeveloped nations. First of all, a composite prescription is applied on an integrated basis—a line of credit, technical assistance and training, and in most cases a commitment to long-term trade. The provision for payment by means of its own commodities has great appeal to an underdeveloped nation, particularly one which is having difficulty in marketing exportable products at adequate prices.

Secondly, the Soviet program is almost entirely a credit program. Interest rates are low—2 or 2½ per cent. Repayment usually begins after the project is completed. Amortization is usually prorated over a 12-year period. Our Western interest rates are higher, but our repayment terms are often much longer, running from 30 to 40 years.

Third, the Soviet program usually covers only the foreign exchange costs of a project, leaving the balance to be financed from internal resources. Western development loans have

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assisted through various devices with some of the internal financial requirements.

Fourth, Bloc economic credits are usually related to industrial development. They are granted for sugar mills, cement plants, and textile mills rather than for sanitation, sewage, or housing development.

Fifth, these industrial programs are aimed at increasing the public or socialized sector of the economy, rather than the private or free enterprise sector. Thus the Russian-built Indian steel mill at Bhilai is a government-owned plant, whereas the American-built plant at Jamshedpur is a privately owned expansion of Tata.

Finally, the aid-and-trade deals are independent of military pacts. Non-Communist underdeveloped countries receive Bloc military and economic assistance without entanglement in a Bloc military alliance. This practice disarms many; it lends at least surface credence to the Soviet line that "there is nobody here but us peace-loving Russians" as the military and economic technicians pour in.

#### *Sources of Information on Bloc Economic Aid*

We have encountered rather formidable difficulties in estimating closely the magnitude of Bloc economic assistance to underdeveloped countries. It is true that considerable information is usually available from open sources regarding the amounts of non-military assistance which Bloc countries *promise* to deliver. Soviet agreements, in particular, are widely publicized, especially when large lines of credit are extended: it has been trumpeted to the world that Afghanistan received a \$100 millions credit and Egypt a \$175 millions credit from the USSR. More important for our purposes, the actual texts of many of the major agreements have been officially released.

Even when no value figures are announced, information available through attaché reports usually permits us to estimate the approximate total cost and the foreign exchange component of an economic assistance agreement. Reports obtained through overt or covert channels from Western industrial firms who have commercial contacts in underdeveloped countries can also provide such data. The cost of the petroleum refinery Czechoslovakia is building in Syria, for example,

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was estimated in part on the basis of information obtained from a Western corporation whose bid on the project was rejected.

We are thus confident that our estimates on promised economic assistance are fairly accurate. We believe we are within 5 per cent of the correct total figure and no more than 10 per cent in error for individual countries.

The confidence we have in our estimates of Bloc performance on assistance agreements is considerably less, and so far we have published estimates of only the *minimum* amount of assistance actually provided. Such estimates are of some value, but they are an inadequate basis for answering several pressing questions. In particular, they do not enable us to determine the amount of indebtedness or the rate of loan amortization of a country receiving credits from the Bloc.

The major difficulty in assessing the implementation of Bloc assistance agreements is finding sources of raw information. It is exceptional for officials in underdeveloped countries to be candid in discussing Soviet projects with U.S. attachés. Debt statements and ministerial reports of recipient countries are occasionally helpful. But in general we must rely on delivery or shipping notices and clandestine reports on construction progress. Clandestine reports are also our most valuable source on the numbers, competence, and activities of Bloc technicians assigned to aid projects. We feel the need for much more information on what success the Soviets are having in getting accepted as the representatives of peace and progress and the real champion of underdeveloped countries.

### *Special Problems with Bloc Arms Deals*

Estimating the value of military assistance encounters considerably greater difficulties than estimating non-military assistance. The publicity attending the signature of an economic assistance agreement is notably absent in the case of military agreements. The military estimates must be based mostly on descriptions of individual shipments or other observations contained in many discrete military attaché and clandestine reports. The resulting estimates of units of equipment are converted to value terms by applying Bloc prices to the items in question, if they are known. In some instances we have had to use the U.S. prices for comparable items in

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order to arrive at a value estimate. We consequently believe that although our estimates in terms of equipment units are reasonably accurate, those in terms of value may be in error by 25 per cent or more.

The most troublesome consequence of our uncertainty about value estimates is inability to determine with precision the financial indebtedness to the Bloc of those countries receiving Bloc military assistance. A reliable determination of the amount of cotton Egypt, for example, is shipping each year in repayment for the arms it has received from the Bloc would be significant intelligence. But especially in the case of Egypt, the inaccuracy of our evaluations is compounded by the fact that some of the arms delivered have been obsolete and therefore sold at a discount, and some of them apparently have been given without charge. Moreover, some small portion of the arms shipped to Egypt and Syria have been sent on to be used in other areas, and we are not certain who ultimately will pay for these.

#### *Sources of Information on Trade*

Collection of data on Bloc external trade is considerably simplified by the fact that most non-Communist countries issue periodic reports on the value and pattern of their foreign commerce and we therefore do not have to depend on Communist sources. Statements issued by Bloc countries, as well as information obtained through clandestine collection, provide means of cross-checking sources. When there are discrepancies between estimates made on the basis of official non-Communist compilations and the statements of Bloc countries, we do not automatically assume that the Communists are lying.

An early estimate of Soviet shipments of machinery and transport equipment to underdeveloped countries in 1956, for example, showed only about 20 per cent of the amount claimed by the USSR. This discrepancy, we ultimately concluded, probably resulted from inaccurate item classification in the recipient countries. Underdeveloped countries often have untidy or inexact customs procedures. Even when a standard classification system is used, customs officials are frequently lax in establishing proper criteria to be used by their oper-

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ating personnel. Indian practices are particularly annoying in this respect. In their official reports of commodity imports, items accounting for as much as two-thirds of the value of imports from the USSR have been listed in the unspecified "all other" category. Since among the underdeveloped countries India is a major Bloc customer, the errors in India's commodity reporting may have a considerable effect on our estimates of total Bloc trade.

Other underdeveloped countries have similar bad habits. Most of them publish trade data in a very leisurely fashion. None is up to date in releasing statistics on commodities. No country includes shipments of military items in its reports. There is also the usual problem of re-exports involving third nations, compounded in the Soviet case by the employment of brokers and trading fronts for sensitive transactions. Finally, countries which have multiple exchange rates, such as Egypt and Argentina, present particular difficulties when we attempt to evaluate their trade in terms of dollars.

### *New Tasks for Intelligence*

There is a need for detailed performance information, beyond the question of volume and money value, on Bloc development aid programs. Part of the Western effort in underdeveloped nations is devoted to highlighting for these newly emerging countries the dangers of dealing with the Bloc, to pointing out the advantages of dealing with the West wherever possible. So we not only need to report that country x received a cement plant from the Bloc at a certain price, but also to report the plant's reliability, relative efficiency, and the quality of its product.

And it is not enough for intelligence to measure current trends and performance in Bloc trade and aid. We have, in addition, the important task of anticipating future Soviet moves, of pointing out where economic, military or political problem areas are developing which could present the Bloc with opportunities for exploiting weaknesses. This must be done early in the game if Western policy-makers are to have an opportunity to move in first or to capitalize on some action of the Bloc.



Both in the anticipation of future Bloc moves and in the detailed analysis of Bloc development aid performance to date, I believe that we in the intelligence field need to do a lot more work.

*Strategic Trade Controls*

The other side of the economic cold war coin is the strategic trade control program. We in CIA play a major role in providing the interagency committee structure of the U.S. Government with intelligence support for the development and enforcement of international and U.S. security export controls against the Sino-Soviet Bloc. This intelligence support consists primarily in estimating the significance of certain Western commodities, technology, and services to the war potential of the Bloc.

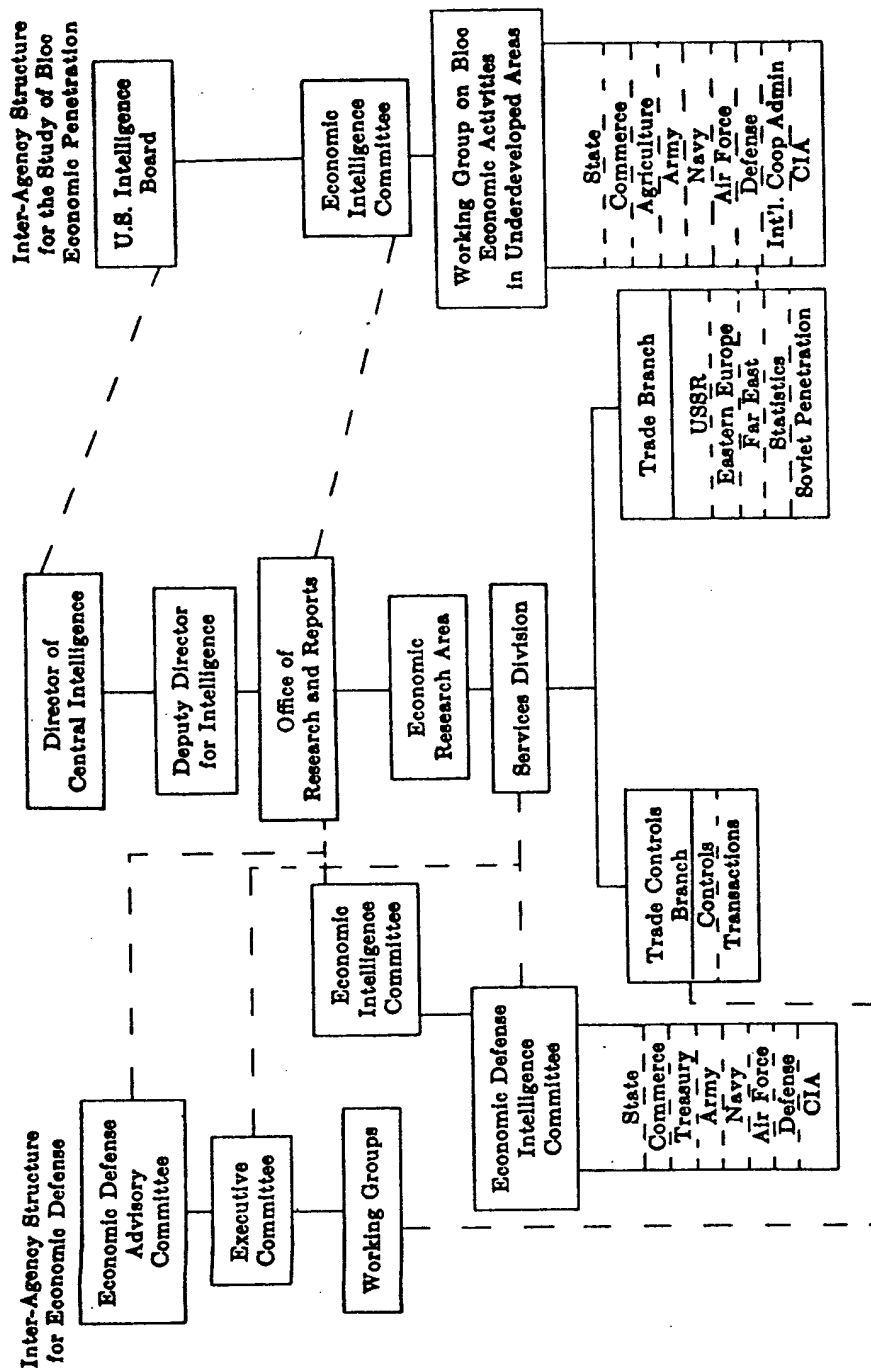
U.S. unilateral controls, as you are aware, are broader than the international ones, and require separate administration. There are therefore two major interagency committees involved in the control of strategic exports, one dealing with problems of multilateral export controls and their enforcement and the other with those of unilateral export controls. The CIA participates in an advisory capacity at each level of these committees up through the National Security Council, as indicated by the dashed lines in the appended chart.

Reports on Bloc exports and imports are often useful in pointing to economic strengths or weaknesses in the Bloc, but one can easily exaggerate an apparent economic strength or weakness by relying solely on commodity trade data. The USSR, in particular, has sometimes exported machinery and equipment known to be in domestic short supply (rolling mills and agricultural machinery, for instance) when such exports have been judged to be of net Soviet advantage. Similarly, in reviewing Soviet purchases from underdeveloped nations, it is prudent not to seize on every import of foodstuffs or industrial raw materials as proof of economic weakness in respect to that commodity.

Commodity studies of Bloc foreign trade will rarely reveal anything more than specific short-term soft spots in the production pattern. This type of information is useful for trade control purposes, but it is inadequate as an indicator of the

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overall capability of the Bloc to achieve its objectives in the cold war. The real capability of the Bloc is revealed only in a close survey of its economic structure and its production and growth characteristics. The basic facts are the \$180 billions of current gross national product for the USSR and the annual growth rate of about 10 per cent in Soviet industry, a GNP of nearly \$70 billions for the European Satellites and of over \$60 billions for China.

Institutional characteristics, in particular the bilateral nature of Soviet trade, the isolation of the Soviet price structure, and the inconvertibility of the ruble, may cause the USSR serious problems in its future trade outside the Bloc. They have not seemed, however, to be a serious constraint so far.

To determine Bloc economic weaknesses and strengths, and to estimate the impact of the strategic trade control program as a whole, we look primarily to Soviet domestic production capabilities. The large and rapidly expanding production capacity of the USSR, complemented by the European Satellites and to an increasing extent by Communist China, is an impressive indicator.